

“Progressive Indexing” of Social Security Benefits? Still a Huge Benefit Cut

There has been some attention in the news media lately to a concept called “progressive indexing.” This is being advanced by a member of the President’s 2001 Social Security commission, investment manager Robert Pozen. The President has referred to it favorably, as have Senators Bennett and Graham.

What is Progressive Indexing?

“Progressive indexing,” in spite of its name, is nearly as big a benefit cut as the price-indexing cut included in the plan developed by the President’s commission.

Indexing benefits to prices, rather than to wages as under current law, is how the President’s privatization proposal causes an across-the-board benefit cut for future retirees of more than 40 percent. Prices rise less rapidly than wages. Therefore, tying the benefit formula to changes in prices, rather than wages, would result in a benefit reduction.

Progressive indexing would subject high earners to full price-indexing, and hit the middle class with a blend of wage- and price-indexing. Only the lowest-earning workers would be exempt from cuts. For example, once fully phased in:

- **A worker earning \$37,000 per year would have a 28 percent benefit cut.**
- **Someone earning \$58,000 would have a 42 percent benefit cut.**
- **Someone earning \$90,000 would have a 49 percent benefit cut.**

Only workers whose lifetime earning are below \$20,000 a year would not be subject to a cut.

Impact of Progressive Indexing

Progressive indexing would close about three-fourths of the long-range deficit in Social Security. That deficit would be enlarged if private accounts were combined with progressive indexing.

In addition to being a substantial benefit cut for most workers, including the middle class, this proposal would over time lead to a flat benefit amount. Social Security would become more like a welfare system, where all earners would receive the same benefit amount, rather than having their benefit vary according to their earnings as the current system does. This could lead to an erosion of public support for Social Security, as those who paid substantially more in FICA taxes would get the same benefit as those who paid in much less.